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Report Highlights:

China's cotton imports in MY09/10 are forecast at 3 million metric tons (MMT), up 85 percent over the estimated 1.6 MMT in MY08/09. This high import forecast is supported by a sizable decline in domestic production and a rebound in cotton use in response to an anticipated recovery of demand for textile and apparel products in late 2009. China's cotton use in MY08/09 is estimated at 10.1 MMT, down 1.1 MMT from MY07/08, mainly due to reduced demand for textile and apparel products as a result of the global economic crisis. Domestic cotton production in MY09/10 is also down due to low profitability in the last two crop cycles.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
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Table of Contents

Executive Summary	3
Production	3
Consumption.....	6
Trade.....	8
Stocks	9
Marketing	10
Policy	11
Tables.....	15
Production, Supply and Demand (PSD)	15
Table 1. PSD in Bales.....	15
Table 2. PSD in Metric Tons.....	16
Trade Tables	17
Table 3. China's Monthly Cotton Imports	17
Table 4. China's Quarterly Cotton Imports by Country of Origin.....	18
Table 5. China's Monthly Cotton Exports.....	19
Table 6. China's Quarterly Cotton Exports by Destination	20
Table 7. China's Monthly Cotton Yarn and Thread Imports.....	21
Table 8. China's Quarterly Cotton Yarn and Thread Imports by Country of Origin	22
Table 9. China's Monthly Cotton Yarn & Thread Exports	23
Table 10. China's Quarterly Cotton Yarn and Threads Exports by Destination	24
Table 11. China's Monthly Cotton Fabric Imports.....	25
Table 12. China's Quarterly Cotton Fabric Imports by Country of Origin	26
Table 13. China's Monthly Cotton Fabric Exports	27
Table 14. China's Quarterly Cotton Fabric Exports by Destination	28
Table 15. Cotton Planted Area and Production by Province.....	29
Table 16. Cotton Tariffs as of January 1, 2009	30
Table 17. Cotton Tariff Rate Quotas	32

Executive Summary

China's MY09/10 cotton imports are forecast at 3 MMT, up 85 percent over the estimated 1.6 MMT for MY08/09. The high import forecast is based on a relatively small domestic cotton production in conjunction with anticipated growth of cotton use in response to an expected recovery of global demand for textile products by the end of 2009. Additionally, the impact of the economic crisis on China's domestic demand for textile products in MY09/10 is expected to be limited if the China realizes their projected eight percent GDP growth in 2009. Cotton imports for MY08/09 are estimated at 1.6 MMT mainly due to a sizable reduction in cotton use in MY08/09 estimated at 10.1 MMT, down 1.1 MMT over the previous year. Textile and garment exports in 2009 are expected to dramatically fall as a result of the slowdown in the global economy. Cotton imports are regulated by the existing tariff rate quota (TRQ) system and a sliding tariff rate scheme. On March 15, 2009, the Government of China (GOC) implemented the "Registration System for Overseas Cotton Suppliers". The "Quality Credit Assessment Measures" associated to this registration system appeared to be arbitrary and has not been notified to the World Trade Organization (WTO) (See details in GAIN CH8075 and GAIN CH9004). On numerous occasions, USDA pressed the GOC to notify WTO members and follow international trading practices in order to prevent trade disruptions. Given the vast production capacity of China's textile industry, domestic cotton consumption is expected to respond directly proportional to growth in the world economy.

China's domestic cotton production in MY09/10 is forecast at 7.4 MMT based on a reduced planted area of 5.6 MHa, as compared to the 5.9 MHa in the previous year. Despite the GOC's efforts to maintain stable cotton production, the domestic planted area for cotton has been impacted by government support policies to increase grain production and food security, and the relative per unit returns from cotton versus other competing crops. The cotton seed subsidy was expanded to cover all cotton area in MY09/10 and is likely to remain in place in the foreseeable future. Technology advancement in recent years has boosted cotton yields to more than 1,300 Kg/Ha. Yields are expected to remain generally stable in the next two years.

Production

China's MY09/10 cotton production is forecast at 7.4 MMT, down from last year's estimated 7.8 MMT. This decrease is based on a smaller planted area of 5.6 MHa with yields remaining similar to the previous year. China's cotton planted area increased in MY06/07 and remained stable in MY07/08 mainly due to high comparative revenue versus other crops. However, in response to increased prices from competing grain and oilseed crops since late 2007, the cotton planted area in MY08/09 declined to an estimated 5.95 MHa. Post had originally estimated that the MY08/09 production was 7.8 MMT. This is 300,000 MT higher than the 7.5 MMT published by NSB's 2008 "China's National Economy and Development Communiqué." As reported in previous reports, under-estimated planted area in Xinjiang Province appears to be the main reason contributing to the differences in production figures. According to the 2008 China Statistics Yearbook, Xinjiang's cotton production in MY07/08 stood at 3 MMT. Industry sources revealed that Xinjiang production for MY08/09 actually had exceeded the 3 MMT figure. Although several provinces (Henan, Jiangsu, and Hunan) reported a decrease in production, total domestic production is likely at 7.8 MMT in MY08/09. (See Table 15 for planted area and production by province). The marketing of the MY08/09 crop remained slow throughout the year and the farm-gate price continued to plummet since early harvest. Cotton farmer returns in MY08/09 declined by 40 to 60 percent compared to the previous year. Competing grain crops, however, showed a relatively small drop in annual returns. Although the GOC's policies favor a stable cotton planted area in MY09/10, planting intention surveys conducted by various government agencies and institutes are hardly ever in agreement, thus making it increasingly difficult to discern accurate information. However,

after considering all available sources, Post favors information supporting a decline in cotton production to 7.4 MMT based on a smaller planted area in MY09/10.

Planted area

MY09/10 domestic cotton planted area is forecast at 5.6 MHa, down six percent from the previous year's estimated 5.9 MHa, mainly in response to reduced returns in MY08/09. Based on the planting intention survey conducted in January 2009, the China Cotton Research Institute (CRI) forecast planting intentions for MY09/10 will decline by 21 percent. CRI conducts annual cotton planting intention surveys on fixed households. The current survey covered 4,292 cotton producing households in the 147 leading cotton-producing counties nationwide. The survey also indicates that 48 percent (while this was 20 percent in the 2008) of the interviewed farms will reduce cotton area versus the previous year in the three major cotton-producing regions (see the table below). Specifically, the planting intention in the Northwest region will decrease seven percent, with the majority (74 percent) of surveyed farmers reporting unchanged planting intentions and only four percent reporting possible increases to planting intentions. The survey also indicates that the average seed cotton price for 2008 decreased 22 percent over the previous year with 25 percent in the Yangtze and Yellow River regions. CRI sustained that the sharp fall in planting intention is attributable to a combination of high prices for agricultural inputs in the first half of 2008 in tandem with a low post-harvest price for domestic cotton. According to CRI, average farmer returns in 2008 were negative in the Yangtze River Region, the Yellow River region was \$200/Ha and the Northwest region was \$145/Ha, respectively, both drastically down 82 percent over the previous year. In late March 2009, CRI published the results of its second survey conducted in March. Compared to the previous year, the planting intention was down 22 percent, but 31 and 29 percent for the Yangtze River and the Yellow River regions, respectively. Planting intentions for the Northwest region slightly recovered two percentage points compared to CRI's first survey.

CRI 2009 Cotton Planting Intention Survey Results

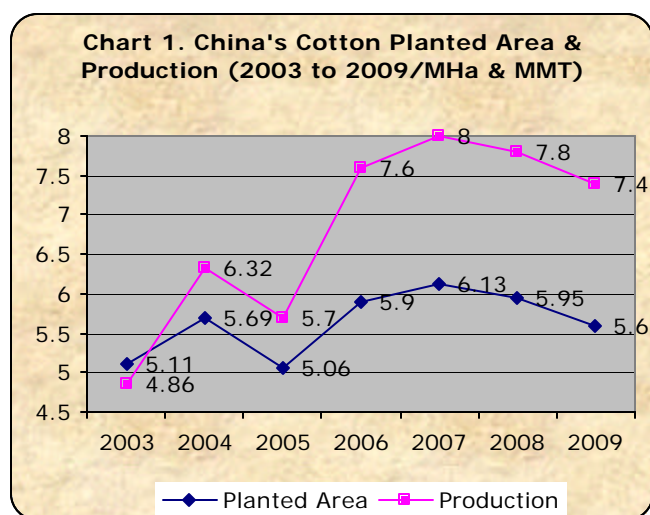
	No. of counties	No. of households	Planting intention			Intention change %
			Unchanged	Increase	Decrease	
Nation	147	4,292	1,877 (44%)	156 (4%)	2,071 (48%)	-21
Non-Northwest	108	3,086	1,079	106	1,901	-25
--Yangtze River Region	53	1,777	593	38	1,040	-27
--Yellow River Region	52	1,273	460	68	727	-24
--Other	3	160	26	0	134	-38
Northwest Region	39	1082	798	50	170	-7

In mid-March 2009, the China Cotton Association (CCA) released the 2009 cotton planting intention survey conducted in early March. It shows a 14-percent decrease based on results from 1,321 cotton farmers in 13 cotton-producing provinces. The planting intention is declining in all three major cotton-producing regions with the Yellow River down 10 percent and the Northwest Region also down 13 percent. The planting intention also declined in the Yangtze River region with Hebei and Jinagsu provinces both down 24 percent. CCA noted that the six-year slump in seed cotton prices plus increased production costs have squeezed farmer incomes to a record low in MY08/09.

In the largest producing province, Xinjiang, the marketing of the MY08/09 seed cotton is now complete. Market data shows that farmer returns dropped to the lowest in recent years.

The Xinjiang Production and Construction Group (PCC) reported incomes from the MY08/09 crop at \$440 million, smaller than the previous year. The Xinjiang provincial government also reminded farmers to diversify planting crops and not only plant cotton. Provincial officials are increasingly encouraging farmers to be cognizant of market demand for their crops.

According to the National Cotton Market Monitoring Network (NCMMN) survey results from a February report, 65 percent of interviewed farmers said they would reduce the cotton planted area, while 21 percent would increase and 14 would remain unchanged.



In response to the widely expected decline in cotton area, China's Ministry of Agriculture (MOA) set the target area at 5.67 MHa (85 million Mu) for 2009. MOA stressed that it prefers to maintain a stable cotton area and increase profitability through the advancement of technology and productivity. In a MOA National Cotton Production Conference held April 1, MOA estimated the MY09/10 cotton planted area at 5.1 MHa, down 12 percent over the previous year. In addition to providing full coverage for seed suppliers, MOA promised to build 200 high production bases in advantageous regions to boost production.

The GOC's agriculture policy continues to

favor grain crops. As reported in GAIN CH7033, seed subsidies for cotton at \$32 per hectare (15 Yuan/Mu) (GAIN CH7033) remained lower than grain crops. Grain farmers received a direct subsidy, an agriculture input subsidy of \$137 per hectare (RMB 64 per Mu) and, subsidies for purchasing large agriculture machinery.

Therefore, MY09/10 cotton planted area will fall based on analysis from many sources. The rate of decline, however, is difficult to predict as it is too early to determine the final cotton-planting intentions and farmers may change planting decisions at the last minute. In reviewing China's cotton production trend in the recent five years, the average yearly cotton planted area stood at 5.7 MHa, with the lowest at 5 MHa in 2005. In general, a sharp fall in planted area in the Northwest region is unlikely because there are fewer viable options for farmers. Post forecasts the MY09/10 cotton planted area to decline four percent over the previous year.

Yield

China's cotton yield for MY09/10 is forecast to be 1,322 Kg/Ha, slightly higher than that in MY08/09. The continual improvement in yields is mainly attributable to technical advancements in the Xinjiang production region and in the dissemination of biotechnology (Bt) cotton varieties in the Yangtze and Yellow River regions. A sustained period of favorable weather conditions in most cotton producing regions has also supported recent improvement to yields.

The coverage of Bt cotton varieties in MY09/10 is expected to increase further in MY09/10 mainly supported by a cotton seed subsidy with full national coverage. Some experts believe that Bt variety coverage reached 100 percent in Henan, Hebei, Shandong, and Anhui provinces. Industry experts estimate that the planting of Bt varieties generally improves

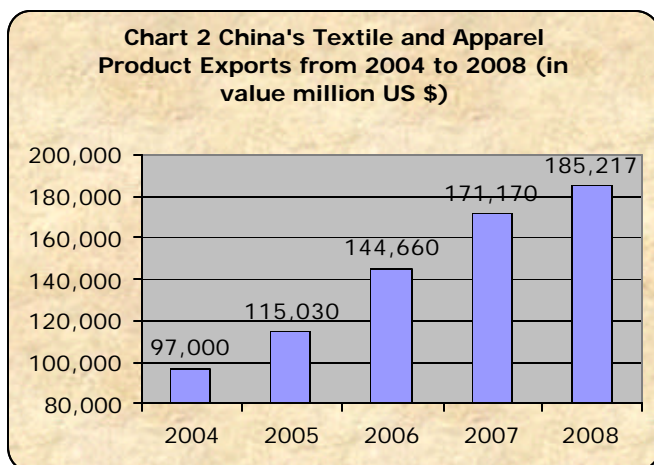
yields by at least 10 percent compared with conventional seeds and reduces the need for chemical sprays and labor inputs by 60 percent and seven percent, respectively.

In Xinjiang, Bt varieties are reportedly not planted due to fewer outbreaks of diseases/pests. The development of conventional varieties with specific traits such as dwarf plant size and early maturity are expected to continue boosting yields. In China, the widely used practice in agronomy also includes high density sowing, plastic sheet covering, and drip irrigation technology that will contribute to gaining higher yields. These advancements are particularly significant for Xinjiang Production and Construction Corporation (PCC) farms. Industry sources reported that drip irrigated in the planted cotton area accounted for 80 percent of the PCC planted area.

Consumption

China's cotton consumption for MY09/10 is forecast at 10.6 MMT, up five percent from an estimated 10.1 MMT for MY08/09. China's cotton consumption is estimated to fall nearly 10 percent in MY08/09 from the 11.2 MMT in the previous year, mainly as a result of the sharp fall in world demand for textile and apparel products since late 2008. Additionally, the combined negative factors of rising labor costs, tight credit, currency appreciation, and falling polyester prices have also curtailed cotton use in the early months of 2009. As mentioned in the Policy section of this report, the GOC announced a plan to revitalize the textile sector in late 2008. One of the stimulus measures was to raise the tax rebate for textile/apparel exports to 15 percent from the 14 percent effective on January 1, 2009. Industry sources reported that the effects of the measures remained limited. On March 27, the GOC implemented, effective April 1, 2009, a tax rebate in support of textile and apparel exports. However, there have been reports of many small to medium textile facilities increasingly going bankrupt since the beginning of 2009. Industry statistics also revealed a rapid decline in textile/apparel export value in the first two months in 2009, particularly; the export value in February was 40 percent lower than the same month in 2008 and 2007. It is likely that cotton use will fall further in the first half of 2009, as the slowdown in the world economy continues to constrain textile demand. Despite all this, domestic textile and apparel consumption is expected to be less impacted than previously believed as most independent (non government) analysts have revised estimates for China's GDP growth between six to seven percent in 2009. Additionally, China's vast textile producing capacity will also drive cotton consumption when world demand for textile and apparel products recovers. In the long term, cotton consumption is expected to grow mainly driven by domestic textile consumption and continued albeit modest export growth.

The development of China's textile sector is likely to reach the lowest level in post WTO



accession years. According to industry sources, fixed asset investment in the textile industry stood at \$40 billion (RMB 272.4 billion) in 2008, up seven percent over the previous year, despite all negative factors. This growth rate, however, is significantly lower than the 26 and 27 percent increase, respectively, in 2007 and 2006. Industry insiders believe the priority for most textile enterprises in 2009 is how to survive in a more competitive market by utilizing existing capacity. Although the eastern and southern regions

accounted for 60 percent of new investment, the central and western regions had higher investment growth rates at 27 and 28 percent, respectively, as compared to the minus four percent in the eastern and southern regions. This indicates that the industry continued to move to the central and western provinces in 2008 and will continue this trend in 2009 in search of lower labor inputs and favorable environmental and financial climate for investment. Industry sources estimate the total spindle count exceeded 100 million, as of the end of 2008.

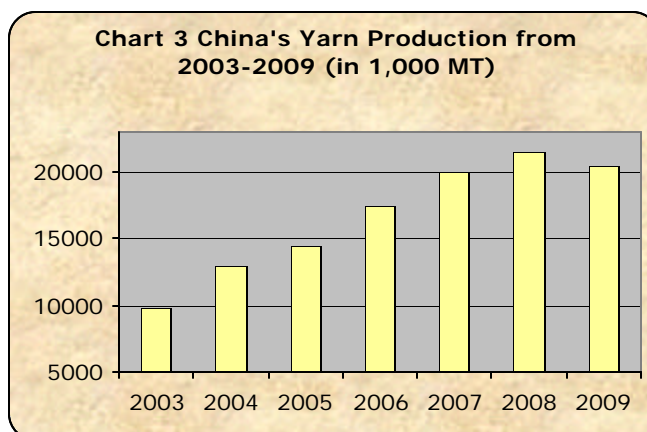
The textile industry will remain one of China's "pillar industries". According to China's 11th Five Year (2006-2010) Plan for Development of the Textile Industry, total fiber production is forecast to reach 36 MMT by 2010, with an annual growth rate of six percent. Moreover, per capita fiber consumption is expected to rise from 16.8 to 18 kg, an annual growth rate of seven percent. Employees involved in this sector are forecast to reach 23 million, up from the current 20 million.

Sales of textiles and apparel are increasingly driven by domestic consumption resulting from increased disposable incomes and population growth. The China Textile Industry Association (CTIA) estimated the domestic share of the sector's total sales output accounted for 77 percent in 2008. According to China's National Statistics Bureau (NSB), the per capita expenditure on clothing by urban residents remained 5.4 times that of rural people in 2007. Nevertheless, as rural incomes rise, better clothing will be high on the list of new purchases for China's 727 million rural residents.

Based on industry statistics, China's textile and apparel exports for 2008 reached \$185 billion, up eight percent over the previous year. However, this is the lowest growth rate in the recent five years. (See chart 2 – Source: cncotton.com). The trade surplus for the textile sector in 2008 was estimated at more than \$166 billion.

The textile/apparel product export growth will be difficult to sustain in the remaining months of 2009. According to industry sources, the average profit margin for the entire sector stood at 3.5 percent for the first eleven months of 2008, down 14 percent over the previous year. It is also estimated that more than 98 percent of profits were generated by 14,000 enterprises (accounting for 30 percent of total enterprises). Industry profit margins continued declining for most enterprises in the first months of 2009. Chinese industry experts estimated that the general production cost increased by more than 10 percent in 2008. According to a survey conducted in February by NCMMN, 47 percent of the interviewed textile enterprises mentioned that their operation rate decreased and 78 percent had less orders than the previous year. Many export-oriented enterprises experienced reduced orders in recent months due to fierce price competition. CTIA expected textile and apparel exports to grow five to ten percent in 2009. In summary, many factors are expected to restrict industrial growth and the expansion of cotton use in MY09/10.

Yarn production is forecast at 20.4 MMT in 2009, down five percent over 2008 (See chart 3: Source - 2003-2008 by NSB and Post forecast for 2009). According to NSB, yarn production reached 21.5 MMT in 2008, up seven percent over the previous year. This was significantly lower than the average yearly growth at 23 percent from 2003 to 2007. Yarn production for the first two months of 2009 is estimated at 2.8 MMT, up less

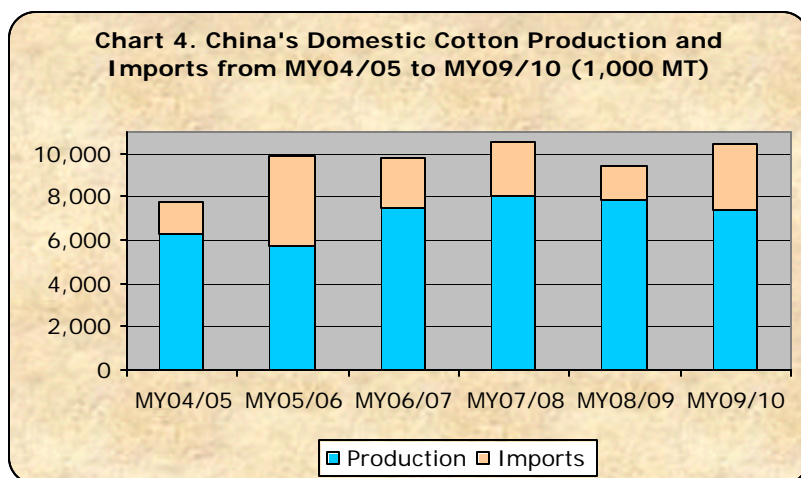


than six percent over the same period in 2008. In consideration of all current negative factors impacting growth of the textile industry, this growing trend is unlikely to be maintained in the remaining months of 2009, while growth in 2010 will mainly depend on the rate of recovery of the global economy as the main driver of consumer demand for textile and apparel products.

Converting yarn production into cotton use remains a challenge, as mills constantly change the cotton ratio in yarn production depending on market conditions and price ratios between cotton and synthetic fibers. For example, a single percentage change in the cotton share can drastically alter cotton consumption by about 200,000 metric tons. According to the China Chemical Fiber Industry Association, total chemical fiber production stood at 24 MMT in 2008, up two percent over the previous year. The volume used for spinning was estimated to be higher than the 8.7 MMT in the previous year. According to CTIA, compared to the previous year, cotton yarn production increased by 11 percent, chemical fiber yarn and blended yarn declined by one and two percent, respectively. NSB reported that total chemical fiber production for the first two months of 2009 increased four percent over the previous year. Along with the price ratio changes between cotton and synthetic fibers and the market demand, mills will likely readjust cotton shares in yarn production more often in 2009. Historically, the cotton price is approximately 20 percent higher than the price of polyester fibers. Industry experts expect that the share of synthetic fibers in yarn production may increase slightly in 2009 due to low to stable crude oil prices. Regarding net waste figures (trash not suitable for spinning), some mills reported that this ranges between three to five percent, instead of the usual six percent used by many industry sources.

Trade

MY09/10 imports are forecast to surge to 3 MMT, up 85 percent from the estimated 1.6 MMT in MY08/09. This massive increase to the import forecast is based on a smaller domestic production coupled with an increase in consumption. As mentioned above, MY09/10 cotton consumption is forecast at 10.6 MMT from the 10.1 MMT in MY08/09 (See chart 4: Source - production: MY04/05 to MY06/07 from NSB; MY07/08 to MY09/10 by Post; Imports: World Trade Atlas; MY08/09 and MY09/10 by Post).



Despite the drop in cotton imports in MY07/08, the United States continued to be the largest import origin, followed by India and Uzbekistan, accounting for 42, 32 and six percent of the total, respectively. One significant change is India's share increased sharply to 32 percent from the 23 percent in MY06/07. During the first months of MY08/09, the United States regained market share to 67 percent. The United States will face

fierce competition from India because of the country's large crop and stock levels reported in MY08/09. The relatively low price and convenient delivery also makes Indian cotton a competitive product in China's market. Indian traders are actively engaged in promoting cotton in China. More than fifty Indian traders participated in the 2008 China Cotton

Industry Summit held in May in Hangzhou, China. India cotton production is likely to continue growing in the coming years along with the technical advancement and dissemination of Bt cotton. Although cotton originating from the United States remains the best choice for Chinese end-users based on quality and reliability of supply, it is expected to continue facing fiercer competition from Indian cotton in the next few years.

Consignment trade is likely to recover in MY09/10. It is widely expected that most Chinese enterprises, in particular the medium and small-scale mills will take a "hand to mouth" purchasing pattern in MY09/10. Consignment trade has advantages such as short delivery time, flexibility, and convenient quality verification. Industry insiders expect more domestic buyers will choose consignment trade as a way to alleviate financial difficulties.

The CCA Cotton Trade Rules (applied to cotton imports only) were published in April 2006 to replace the "China Textile Trade Rules". The new rules highlight contract quality fulfillment and liability. A "black-list" system was established to encourage self-regulation and strengthen the principle of contract sanctity. CCA "blacklisted" one foreign trader in 2007 (<http://www.china-cotton.org/english/enewsshow.php?articleid=161>).

Stocks

Stocks continue to be difficult to estimate. China still has not established an official cotton market information system although several relevant agencies are trying to develop supply and demand balance sheets. The lack of transparent and reliable data (production, consumption, and stocks) is particularly true in recent years due to a rapid expansion and diversified scales of production. The numerous players and diversified ownership in the industry chain, including the millions of cotton farmers, gins, merchants and mills, contribute to making the collection of reliable production statistics an extremely difficult task.

Based on the 2nd Ag Census, NSB adjusted domestic cotton production upward for 2006 and 2007. The major justification was under-reported planted area and under-estimated lint ratios by province. However, production data before 2006 is yet to be re-calculated. Some industry leaders believe total cumulative under-reported production from 2002 to 2005 could reach 2.7 MMT. More time may be needed to justify these new indexes (area and lint ratios). However, in general, the 2nd Ag Census results provide a base for the domestic production estimate, and will ease the burden of analyzing the supply/demand situation for MY09/10 and beyond.

Industry experts opine that NSB yarn production statistics and synthetic fiber production are relatively reliable compared with cotton production statistics. However, converting yarn production into cotton use remains a challenge for analysts, however, with the use of total synthetic fiber figure for spinning in the same period analysts can easily extrapolate a cotton use ratio.

Based on the above assumptions, Post added about 2.7 MMT of underestimated domestic production to the beginning stocks of MY06/07 and removed all residual losses from MY06/07 and thereafter in the 2008 PSD table. However, in reviewing the supply/consumption data for MY07/08 and MY08/09, Post discovered that some unreported cotton must have been added to the NSB yarn production figure. Post added another 540,000 MT in residual losses in MY07/08 but did not carry over a similar amount in the following years. The purpose is to show whether the underestimated supply or the over estimated consumption will finally balance out. The forecast ending stocks for MY09/10 are 2.5 MMT with the stock-to-use ratio at 24 percent. The forecast recovery of "consignment trade" may justify a relatively low stock-to-use ratio in MY09/10 (See GAIN CH7033).

Marketing

State Purchase Facilitated MY08/09 Crop Marketing

State purchases of cotton for reserves will remain the GOC's main support to facilitate the marketing of domestic cotton. As mentioned above, China maintains an unknown state cotton reserve mainly used to regulate domestic supply and demand, and manage market prices. Cotton reserve purchases act as a support mechanism to safeguard farmer incomes when cotton prices and profitability falls in the sector.

In early 2008, cotton prices remained bearish and fell further after the MY08/09 crop was harvested. According to CCA, since the end of January, 2009, farm-gate prices for the 2008 domestic crop (seed cotton) fell by 26 percent compared to the previous year; and only 82 percent of the 2008 domestic crop was marketed, a seven-percent decline from the previous year. Specifically, despite falling farm-gate prices (23 percent over the previous year). Xinjiang farmers sold 99 percent of seed cotton, six percent higher than the preceding year. In the Yangtze and Yellow River regions, the marketing was markedly slower than the previous year and farm-gate prices were 30 percent lower than the previous year.

In an effort to protect farmer incomes, the GOC (through the China State Cotton Reserve Corporation) purchased 220,000 MT of old cotton from Xinjiang in October 2008. This purchase, however, had a limited impact on the marketing of the new crop. The GOC announced the purchase of 2.5 MMT additionally through two purchases in late October and mid-December. Industry sources indicated that a floor price of \$1,853(RMB 12,600)/MT was determined by production costs. These measures expedited the marketing of the MY08/09 crop significantly. According to CCA, as of March 10, 2009, a total of 2.42 MMT of cotton was purchased. It is likely that the GOC will sell off some of the reserves in the next few months to regulate the domestic cotton price and supply/demand conditions.

Cotton Marketing is expected to Consolidate Further in 2009

According to the National Development and Reform Commission (NDRC) Decree on "Administrative Measures for Accreditation of Eligibility of Cotton Processing and Marketing" issued on October 2006, all cotton processing entities must meet certain requirements and be awarded with a "Cotton Processing License". The Decree is aimed at enhancing the management of the industry and supervising its excessive expansion. In addition to enforcement of the classification reform, the Decree will also create an incentive for greater consolidation in the sector. As mentioned in the Policy section of this report, as of the end of 2008, 1,343 gins completed or are in the process of renovation of equipment, of which 1,257 completed with total baling capacity of 6.8 MMT. Based on NDRC's plan, the number of gins is expected to decline to 2,400 by the end of 2009 from the current estimated 10,000.

Transporting cotton out of Xinjiang Province

Transporting of cotton out of Xinjiang remained stable in MY08/09. The GOC currently provides subsidies for the shipping of Xinjiang cotton to mills in coastal and southern cities. The policy is expected to improve the profitability of the MY09/10 crop. However, with more textile manufacturers beginning to build mills in Xinjiang partly to alleviate the transportation pressure, industry insiders are concerned about the growth in transportation costs because per railcar yarn loading capacity is equivalent to less than 70 percent of cotton.

Other Marketing Related Issues

The GOC already approved some international traders to engage in domestic cotton trade. These traders, however, are taking a cautious approach to entering the domestic cotton market because of its size and complexity. There has been limited interest from international traders in the marketing of domestic cotton.

U.S. cotton exporters interested in exporting cotton to China in need of marketing assistance may contact USDA/FAS's Agricultural Trade Offices (ATO) in Beijing, Chengdu, Shanghai, and Guangzhou. They can be contacted via email at ATOShanghai@usda.gov, ATOBeijing@usda.gov, ATOGuangzhou@usda.gov, ATOShenyang@USDA.gov, and ATOChengdu@usda.gov, respectively. Cotton Council International (CCI) is also actively involved in promoting U.S. cotton in China and throughout Asia. CCI serves China regionally from its Hong Kong Office. CCI can be reached via email at cci-hongkong@cotton.org. Both CCI and the ATO's organize events designed to bring U.S. cotton exporters in close contact with Chinese buyers.

The China International Cotton Conference, a biannual event sponsored by CCA, MOA, and FAO, attracts a worldwide audience from the cotton/textile industry. The 2009 conference will be held on June 10-11 in Nanjing, Jiangsu Province. CCA, in collaboration with China National Cotton Exchange also holds an annual event-China Cotton Industry Development Forum focusing on analysis and outlook of the market situation.

Policy

AQSIQ Enforced Registration System for Overseas Cotton Suppliers

In August 2008, AQSIQ published Announcement No. 87, a new registration system for overseas cotton suppliers and, in November, published a related circular on "Quality Credit Assessment Measures". The Announcement No. 87 draft was notified to the WTO February 2008, however, the November circular was never notified. Announcement No. 87 established a registration system for foreign cotton suppliers effective March 15, 2009. Foreign suppliers who do not register under the system will be subject to a lower "quality credit assessment grade" and, will be required to include a pre-shipping inspection clause in contracts. Since the publishing of the Announcement, USDA expressed serious concerns to AQSIQ through consultations and official letters regarding the potential trade impact and, requested AQSIQ delay the implementation of the system for six months to allow for technical consultations. However, AQSIQ moved ahead as planned enforcing the registration system, though added that the "Quality Credit Assessment" would be "in a trial implementation stage". As of this report, AQSIQ approved 104 registered overseas cotton suppliers in three tranches. Despite all concerns about the trade impact of the system, most of U.S. traders filed applications in mid-March 2009 to avoid trade disruptions. Currently, USDA continues to engage AQSIQ to address outstanding industry concerns with the new registration system. AQSIQ has been willing to listen to industry concerns but has not modified the registration system.

Seed Subsidy Expanded to Cover all Planted Area in 2009

In 2007, the GOC began to subsidize cotton production through a multi-year "seed subsidy" program. Based on industry sources, MOA appropriated a total of \$72 million (RMB 500 million) per year in 2007 and 2008 to cotton seed producers/traders to cover 2.25 MHa of the planted area in major cotton-producing provinces (GAIN CH7033). On March 5, 2009, MOA and Ministry of Finance (MOFIN) published Nong Cai Ban (2009) No. 20 Announcement on Guidance on the 2009 Seed Subsidy. The Announcement indicated that seed subsidies for cotton will expand to cover the whole cotton planted area. The subsidy continues to be allocated to large seed producers/traders for selected "high quality varieties" through an

open bidding process. The rate remained unchanged at approximately \$32 per hectare (RMB 15 per Mu). The amount of seed subsidy to cotton is not officially published, total appropriations in 2009 are expected to exceed \$180 million (RMB 12.6 billion) based on an estimated 5.6 MHa planted area. According to industry sources, it appears funds have been distributed as scheduled.

The seed subsidy policy is aimed at stabilizing planted area. It is also expected that cotton quality will be more uniform because of selected "high quality varieties" (seeds eligible to be subsidized) are likely to increase in area coverage. Given the increasing cotton supply gap and the importance placed on maintaining a stable planting area, this policy is likely to remain in place in the foreseeable future.

Transportation of Xinjiang cotton continued to be subsidized in 2009

On June 23, 2008, MOFIN published Announcement on Administrative Measures on Subsidy to Transportation of Xinjiang Cotton. According to the announcement, the GOC will provide a transportation subsidy for the shipment of cotton out of Xinjiang, effective MY08/09 through MY10/11 tentatively. The subsidy rate is \$59 (RMB 400)/MT. The shipment of outbound Xinjiang cotton is generally hindered by a shortage of railcars. The subsidy facilitated the shipment of Xinjiang cotton to coastal provinces. Most industry insiders believe this subsidy is likely to remain in place in the coming years to ensure the shipment of cotton in a timely manner.

Classification Reform

China's cotton classification reform continued in MY08/09 and is expected to move forward in MY09/10. According to industry sources, as of the end of 2008, 1,343 gins completed or are in the process of renovation of equipment, of which 1,257 were completed with total baling capacity of 6.8 MMT. Eighty two classification agencies distributed nationwide have built eight five classification laboratories with 278 HVI instruments capable of classifying 4.2 MMT. As of the end of 2008, 1,216 gins participated in cotton HVI classification, up 57 percent over that in 2007. Total processed cotton based on the new classification system reached 2.8 MMT, compared to the total 1.7 MMT in the previous year. According to China's cotton classification plan, the new classification system will be fully enforced September 2010, specifically, "small bale" cotton will not be allowed to enter the market. A series of measures were taken and will continue in 2009 to push this reform forward. The GOC will provide concession loans for equipment renovation to the entities engaged in the reform, large bale cotton (based on the new system) continues to be privileged in obtaining rail cars, and the state purchasing of cotton for reserve continues to favor large baled cotton. Post field studies also showed many cotton processing entities took a more aggressive approach towards meeting the reform requirement due in part to the pressure of being phased out of this fiercely competitive marketplace. The new system is also expected to facilitate generating the domestic cotton production estimates and upgrade the quality level of the ginning sector.

Cotton imports are regulated by TRQ regime

The TRQ regime will remain in place in the foreseeable future as the GOC argues that the TRQ regime is necessary to regulate the market and protect the interests of both farmers and the domestic textile industry. China's current willingness to expand the TRQ beyond its WTO commitments should continue into the near future because domestic production can not meet the demand of the textile industry. As usual, China distributed 894,000 MT of cotton TRQ for 2009 (subject to one percent import duty) at the end of 2008. According to industry sources, an additional 2.6 MMT of cotton TRQ (additional TRQ) was distributed two times to

mills in mid 2008 without official publication. A large volume of allocated TRQ for 2008 was unused mainly because of inadequate supply/demand information. Industry sources indicated that it is unlikely for the GOC to add additional TRQ in the first half of 2009 because of sufficient domestic cotton currently at relatively low prices and a shrunk textile/apparel demand by overseas markets as a result of the on-going global financial crisis. Distribution and allocation of the TRQ remains non-transparent.

The GOC adjusted the tariff rate applied to cotton imports under the additional TRQ in 2008. MOFIN announced, effective January 1, 2008, variable tariff rates for cotton imports under additional TRQ are adjusted to 5-40 percent, as compared to the former 6-40 percent enforced in 2007. However, in late May 2008, MOFIN announced, effective June 5 to October 5, variable tariff rates for cotton imports under additional TRQ were adjusted to 3-40 percent. The slight reduction of import duties was aimed at reducing import costs in response to the increased cotton price in the global market. There has not been any news regarding how the GOC will increase additional TRQ for 2009. The variable tariff rate for additional TRQ, if any, will be decided mainly based on the domestic cotton price.

MY08/09 State Purchase of Domestic Cotton Estimated at 2.7 MMT

The GOC maintains an unknown volume of state cotton reserves used to regulate the domestic cotton market. State purchasing supports the domestic cotton price and facilitates the marketing of domestic cotton. It also enhances the ongoing classification reform by paying out a premium for large bale cotton. State cotton reserves remain a national secret and are likely still a considerable amount. In the third quarter of 2008, the China State Cotton Reserve Corporation purchased a total 220,000 MT of Xinjiang old crop through the open bidding system. In October, 2008, the GOC decided to purchase one MMT mainly in an effort to protect cotton farmer incomes, and the purchase was completed by the end of 2008. In late December 2008, the GOC announced an additional state purchase of 1.5 MMT of domestic cotton at floor price. According to CCA, as of March 10, the total purchased volume reached 2.42 MMT, accounting for 89 percent of the purchase target of 2.72 MMT. Out of the purchased volume, 1.32 MMT are Xinjiang cotton and the remainder of 1.1 MMT was purchased from other cotton-producing provinces. Industry sources indicate that the price for most of the purchased cotton was \$1,853 (RMB 12,600)/MT. The purchasing of the remaining 300,000 MT is still ongoing. The state cotton reserve management policy is expected to continue in the foreseeable future.

Targeted Loans

In 2008, the Agriculture Development Bank of China (ADBC) continued to provide targeted loans with favorable terms for the purchase of cotton. ADBC earmarked a record \$7.7 billion for this program, up 28 percent over the previous year. According to the NDRC, as of the end of March 2008, ADBC provided loans for more than 4.4 MMT of the 2007 crop, up 14 percent over the previous year. Xinjiang's loans reached a record \$3.7 billion covering more than 2.1 MMT of the MY07/08 crop in the province, up 13 percent over the previous year. The increase in loans is a result of low default rates on the previous years' loans and a large crop with a relatively higher price in MY07/08. In the ADBC meeting held in January 2008, the ADBC president vowed to continue to financially assist domestic cotton marketing in MY08/09.

New Plan to Revitalize the Textile Industry

According to industry sources, on March 26, 2009, China's State Council decided that, effective on April 1, the tax rebate for textile and garment exports would increase to 16 percent (from the current 15 percent rebate amount). However, the rebate rate has not

increased to 17 percent as most industry leaders anticipated. Industry contacts noted that MOFCOM was concerned about increasing trade surplus as a result of high tax rebate. This is the second time the GOC increased the tax rebate for textile and apparel exports in 2009. On February 4, 2009, the GOC approved a stimulus plan to revitalize China's textile industry. The Plan was made in response to the slowdown in exports since late 2008 as a result of weak demand by overseas markets. The Plan includes measures to encourage exports, foster domestic brands and provide financial support for textile enterprises.

According to the Plan, the GOC will expedite the phase out of obsolete producing facilities, eliminating energy-inefficient and polluting equipment, encourage textile and garment manufacturers to relocate operations to central and western areas from southeastern parts of China. New production bases for high quality cotton yarn, fabric, and textile products will be built in Xinjiang Province. The GOC will also take a proactive attitude to boost domestic textile/apparel consumption through innovation of new products and exploiting domestic rural markets. The tax rebate for textile/apparel exports increased to 15 percent from 14. (The export tax rebate rate for textiles has increase three times since August 2008. The previous increase in November took the rate from 13 percent to 14 percent).

According to industry sources, the tax rebate increase appears to have limited impact on boosting exports as the total export value for February 2009 fell by 35 percent over the previous year. Some industry insiders speculate that the GOC may increase the tax rebate further in 2009.

Tables

Production, Supply and Demand (PSD)

Table 1. PSD in Bales

Cotton China	2007			2008			2009		
	2007/2008			2008/2009			2009/2010		
	Market Year Begin: Aug 2007			Market Year Begin: Aug 2008			Market Year Begin: Aug 2009		
	Annual Data Displayed		New Post	Annual Data Displayed		New Post	Annual Data Displayed		Jan
			Data			Data			Data
Area Planted	0	5,500	6,126	0	5,880	5,950			5,600
Area Harvested	6,200	5,500	6,126	6,000	5,880	5,950			5,600
Beginning Stocks	20,536	8,010	16,247	20,004	12,968	15,615			12,605
Production	37,000	29,850	36,900	35,800	35,400	36,000			34,000
Imports	11,530	22,970	11,530	7,000	16,995	7,440			13,780
MY Imports from U.S.	0	0	4,910	0		4,860			7,350
Total Supply	69,066	60,830	64,677	62,804	65,200	59,055			60,385
Exports	62	23	62	100		60			70
Use	51,500	56,500	51,500	46,500	54,200	46,390			48,680
Loss	-2,500	-3,820	-2,500	-2,500		0			
Total Dom. Cons.	49,000	52,680	49,000	44,000	54,200	46,390			48,680
Ending Stocks	20,004	8,127	15,615	18,704	11,163	12,605			11,635
Total Distribution	69,066	60,830	64,677	62,804	65,200	59,055			60,385
Stock to Use %	39	14	30	40	20	27			24
Yield	1,299.	1,182.	1,311.	1,299.	1,311.	1,317.			1,322.

Table 2. PSD in Metric Tons

Cotton China	2007			2008			2009		
	2007/2008			2008/2009			2009/2010		
	Market Year Begin: Aug 2007			Market Year Begin: Jun 2008			Market Year Begin: Aug 2009		
	Annual Data Displayed		New Post	Annual Data Displayed		New Post	Annual Data Displayed		Jan
			Data			Data			Data
Area Planted	0	5,500	6,126	0	5,880	5,950			5,600
Area Harvested	6,200	5,500	6,126	6,000	5,880	5,950			5,600
Beginning Stocks	4,471	1,744	3,537	4,355	2,823	3,400	0	0	2,744
Production	8,056	6,499	8,034	7,794	7,707	7,838	0	0	7,403
Imports	2,510	5,001	2,510	1,524	3,700	1,620	0	0	3,000
MY Imports from U.S.	0	0	1,070	0	0	1,060	0	0	1,600
Total Supply	15,037	13,244	14,082	13,674	14,196	12,858	0	0	13,147
Exports	13	5	13	22	0	13	0	0	15
Use	11,213	12,301	11,213	10,124	11,801	10,100	0	0	10,599
Loss	-544	-832	-544	-544	0	0	0	0	0
Total Dom. Cons.	10,668	11,470	10,668	9,580	11,801	10,100	0	0	10,599
Ending Stocks	4,355	1,769	3,400	4,072	2,430	2,744	0	0	2,533
Total Distribution	15,037	13,244	14,082	13,674	14,196	12,858	0	0	13,147
Stock to Use %	39	14	30	40	20	27	0	0	24
Yield	1,299.	1,182.	1,311.	1,299.	1,311.	1,317.	0.	0.	1,322.

Trade Tables

Table 3. China's Monthly Cotton Imports

Unit: Metric Tons					
Month	2005	2006	2007	2008	2009
January	113,076	301,372	123,092	157,712	77,993
February	70,599	321,280	125,235	158,168	93,000
March	101,487	495,049	259,846	213,221	
April	169,815	490,704	215,093	263,417	
May	160,891	463,809	201,205	240,159	
June	206,024	380,674	252,460	211,043	
July	294,416	290,358	228,945	212,580	
August	373,295	285,958	258,667	186,875	
September	313,304	134,364	234,451	129,057	
October	198,167	84,985	137,031	96,155	
November	224,991	154,592	101,846	76,141	
December	347,517	240,338	322,575	168,433	
TOTAL	2,573,582	3,643,482	2,460,445	2,112,961	
Marketing Year	Aug/05-Jul/06	Aug/06-Jul/07	Aug/07-Jul/08	Aug/08-Jul/09	Aug/09-Jul/10
TOTAL	4,200,521	2,306,112	2,510,869		
Unit: 480-lb Bales					
Month	2005	2006	2007	2008	
January	519,358	1,384,200	565,359	724,373	358,222
February	324,263	1,475,641	575,205	726,468	427,149
March	466,128	2,273,762	1,193,474	979,323	
April	779,959	2,253,801	987,920	1,209,874	
May	738,972	2,130,276	924,135	1,103,049	
June	946,269	1,748,434	1,159,550	969,321	
July	1,352,252	1,333,612	1,051,545	976,378	
August	1,714,546	1,313,403	1,188,058	858,318	
September	1,439,007	617,133	1,076,833	592,759	
October	910,179	390,338	629,382	441,641	
November	1,033,385	710,040	467,777	349,715	
December	1,596,146	1,103,872	1,481,585	773,613	
TOTAL	11,820,464	16,734,513	11,300,825	9,704,831	358,222
Marketing Year	Aug/05-Jul/06	Aug/06-Jul/07	Aug/07-Jul/08	Aug/08-Jul/09	Aug/09-Jul/10
TOTAL	19,292,992	10,591,973	11,300,825		

Source: World Trade Atlas

Table 4. China's Quarterly Cotton Imports by Country of Origin

Unit: Metric Tons					
Marketing Year: 2006/2007					
Country	Jul-Sep /06	Oct-Dec /06	Jan-Mar/07	Apr-Jun/07	TOTAL
United States	420,152	97,556	94,809	366,679	979,197
India	60,220	123,049	260,892	100,278	544,439
Uzbekistan	52,206	45,107	87,454	73,777	258,544
Australia	61,353	72,146	7,556	29,059	170,113
Burkina Faso	23,059	57,417	29,000	34,570	144,047
Cameroon	13,996	23,468	4,834	11,694	53,992
Benin	4,220	4,712	5,835	26,098	40,866
Mali	21,862	9,356	597	5,077	36,892
Zambia	6,113	10,280	716	117	17,226
Mexico	0	5,664	4,782	4,118	14,564
Other	47,497	31,160	11,699	17,290	107,645
TOTAL	710,679	479,915	508,173	668,758	2,367,525
Marketing Year: 2007/2008					
Country	Jul-Sep /07	Oct-Dec /07	Jan-Mar/08	Apr-Jun/08	TOTAL
United States	475,248	188,013	134,116	272,987	1,070,364
India	55,392	216,650	295,524	244,968	812,533
Uzbekistan	33,332	21,088	17,555	90,794	162,768
Australia	42,356	30,649	6,192	19,930	99,127
Burkina Faso	33,501	15,523	14,555	13,899	77,478
Benin	20,701	6,928	4,374	27,148	59,151
Mali	10,568	6,793	13,226	13,865	44,452
Mexico	4,477	12,760	14,016	10,458	41,711
Cameroon	11,651	13,173	7,491	5,524	37,840
Egypt	2,381	3,429	3,454	2,077	11,342
Brazil	4,646	16,813	6,288	1,290	29,037
Cote d'Ivoire	4,442	1,144	2,863	4,093	12,543
Other	23,370	28,486	9,448	7,585	68,890
TOTAL	722,063	561,451	529,102	714,619	2,527,235
Marketing Year: 2008/2009					
Country	Jul-Sep /08	Oct-Dec /08	Jan-Mar/09	Apr-Jun/09	TOTAL
United States	342,427	238,339			580,766
India	29,849	37,151			67,000
Australia	29,701	21,049			50,750
Brazil	2,579	14,149			16,727
Mexico	6,547	8,743			15,290
Uzbekistan	58,427	1,794			60,220
Cameroon	9,106	800			9,905
Benin	15,976	664			16,640
Burkina Faso	8,595	464			9,060
Other	25,305	17,577			42,882
TOTAL	528,512	340,729			869,241

Source: World Trade Atlas

Table 5. China's Monthly Cotton Exports

Unit: Metric Tons					
Month	2005	2006	2007	2008	2009
Jan	204	1,450	2,404	221	581
Feb	59	581	362	393	
Mar	359	0	2,149	811	
Apr	711	488	2,634	962	
May	509	944	932	854	
Jun	861	2,198	2,656	655	
Jul	810	665	1,038	866	
Aug	250	1,179	880	2,043	
Sep	52	1,229	835	3,503	
Oct	208	1,589	2,709	2,451	
Nov	382	1,142	2,887	1,916	
Dec	719	1,572	1,608	1,687	
TOTAL	5,124	13,039	21,094	16,361	
Marketing Year	Aug/05-Jul/06	Aug/06-Jul/07	Aug/07-Jul/08	Aug/08-Jul/09	
TOTAL	7,938	18,887			
Unit: 480-lb Bales					
Month	2005	2006	2007	2008	2009
Jan	939	6,662	11,044	1,015	2,670
Feb	269	2,668	1,663	1,805	
Mar	1,650	0	9,871	3,726	
Apr	3,266	2,241	12,100	4,421	
May	2,337	4,337	4,278	3,921	
Jun	3,955	10,097	12,197	3,007	
Jul	3,722	3,056	4,767	3,979	
Aug	1,148	5,417	4,040	9,381	
Sep	241	5,647	3,837	16,088	
Oct	954	7,300	12,444	11,256	
Nov	1,753	5,245	13,260	8,800	
Dec	3,302	7,220	7,385	7,747	
TOTAL	23,535	59,890	96,886	75,145	
Marketing Year	Aug/05-Jul/06	Aug/06-Jul/07	Aug/07-Jul/08	Aug/08-Jul/09	
TOTAL	36,459	86,750			

Source: World Trade Atlas

Table 6. China's Quarterly Cotton Exports by Destination

Unit: Metric Tons

Marketing Year: 2006/2007					
Country	Jul-Sep /06	Oct-Dec /06	Jan-Mar /07	Apr-Jun /07	TOTAL
Japan	741	292	1,496	328	2,857
Pakistan	118	174	598	571	1,460
Taiwan	198	2,022	611	580	3,412
Indonesia	82	898	1,766	1,762	4,508
Other	1,936	917	445	2,980	6,278
TOTAL	3,074	4,303	4,916	6,221	18,515
Marketing Year: 2007/2008					
Country	Jul-Sep /07	Oct-Dec /07	Jan-Mar /08	Apr-Jun /08	TOTAL
India	88	660	514	487	1,749
Thailand	506	0	201	492	1,199
Taiwan	305	2,485	120	0	2,909
Vietnam	205	1,788	61	0	2,054
Japan	515	1,977	294	339	3,125
Other	1,134	294	236	1,153	2,816
TOTAL	2,753	7,204	1,425	2,471	13,853
Marketing Year: 2008/2009					
Country	Jul-Sep /08	Oct-Dec /08	Jan-Mar /09	Apr-Jun /09	TOTAL
Bangladesh	0	1,458			1,458
India	1,885	1,224			3,108
Pakistan	2,032	687			2,720
Korea, North	1,300	172			1,472
Other	1,194	2,513			3,707
TOTAL	6,412	6,053			12,465

Source: World Trade Atlas

Table 7. China's Monthly Cotton Yarn and Thread Imports

Unit: Metric Tons					
Month	2005	2006	2007	2008	2009
Jan	51,642	62,896	75,289	59,448	38,702
Feb	33,919	61,535	46,631	42,289	
Mar	68,635	88,313	88,089	73,161	
Apr	73,086	81,974	86,136	73,963	
May	67,277	75,690	83,350	69,424	
Jun	64,463	72,098	80,296	63,709	
Jul	62,159	69,185	74,507	70,838	
Aug	66,628	83,238	79,033	57,922	
Sep	65,194	75,944	64,743	59,406	
Oct	62,357	67,583	55,459	58,069	
Nov	64,206	68,989	56,936	46,705	
Dec	70,759	75,147	60,448	50,603	
TOTAL	750,327	882,592	850,919	725,539	
Marketing Year	Aug/05-Jul/06	Aug/06-Jul/07	Aug/07-Jul/08	Aug/09-Jul/10	
TOTAL	840,837	905,198	850,919		

Source: World Trade Atlas

Table 8. China's Quarterly Cotton Yarn and Thread Imports by Country of Origin

Unit: Metric Tons					
Calendar Year: 2006					
Country	Jan - Mar	Apr - Jun	Jul - Sep	Oct - Dec	TOTAL
China*	75,267	95,017	89,374	81,781	341,440
Pakistan	78,853	82,297	82,780	73,122	317,052
Taiwan	15,405	12,545	15,616	19,265	62,830
India	16,201	14,265	14,891	13,886	59,243
Hong Kong	8,433	8,348	8,195	7,022	31,999
Indonesia	7,339	6,176	6,596	6,092	26,202
Thailand	4,440	4,178	3,555	3,838	16,010
Korea, South	1,664	2,188	1,729	1,532	7,112
Vietnam	1,017	817	1,172	1,282	4,288
Japan	1,153	1,184	1,023	1,174	4,535
Turkey	712	786	282	278	2,059
Other	2,260	1,961	3,154	2,446	9,821
TOTAL	212,744	229,763	228,367	211,718	882,592
Calendar Year: 2007					
Country	Jan - Mar	Apr - Jun	Jul - Sep	Oct - Dec	TOTAL
Pakistan	80,977	93,901	86,320	61,145	322,343
China	68,908	92,722	82,626	68,643	312,899
India	16,894	15,817	12,622	10,667	56,000
Taiwan	18,222	17,354	12,794	10,769	59,139
Vietnam	1,712	1,694	1,519	2,704	7,628
Indonesia	5,646	7,021	4,921	4,216	21,805
Hong Kong	7,478	8,573	6,821	6,310	29,181
Thailand	3,897	4,758	4,068	3,404	16,126
Korea, South	2,768	4,206	3,484	2,500	12,958
Japan	981	1,054	832	910	3,777
Other	2,527	2,683	2,276	1,577	9,063
TOTAL	210,009	249,782	218,283	172,844	850,919
Calendar Year: 2008					
Country	Jan - Mar	Apr - Jun	Jul - Sep	Oct - Dec	TOTAL
Pakistan	57,481	65,174	66,313	58,249	247,218
China	68,617	88,780	74,485	47,866	279,748
India	12,770	16,642	13,934	12,495	55,841
Taiwan	10,507	10,624	9,897	10,858	41,887
Vietnam	5,128	5,945	6,710	10,555	28,338
Indonesia	4,731	2,713	2,533	4,664	14,641
Hong Kong	7,081	7,808	5,609	4,098	24,595
Thailand	4,373	4,198	4,966	2,868	16,406
Korea, South	2,559	2,661	1,792	1,780	8,792
Other	1,653	2,551	1,926	1,944	8,073
TOTAL	174,898	207,097	188,166	155,377	725,539

Source: World Trade Atlas

Note: Imports from China based "Processing Trade Zones" likely

Table 9. China's Monthly Cotton Yarn & Thread Exports

Unit: Metric Tons

Month	2005	2006	2007	2008	2009
Jan	23,490	26,322	39,434	37,114	25,208
Feb	19,406	33,121	27,261	28,436	
Mar	44,378	53,124	43,847	55,410	
Apr	45,339	48,898	48,235	54,685	
May	43,642	46,251	49,864	50,120	
Jun	38,775	44,601	47,980	46,381	
Jul	34,481	44,321	47,382	45,580	
Aug	36,940	50,092	50,663	39,480	
Sep	37,634	45,748	45,760	36,414	
Oct	32,429	43,383	39,810	33,036	
Nov	34,724	42,682	39,890	28,855	
Dec	32,096	41,114	38,956	26,744	
TOTAL	423,334	519,657	519,081	482,255	
Marketing Year	Aug/05-Jul/06	Aug/06-Jul/07	Aug/07-Jul/08		
TOTAL	470,461	527,021	519,081		

Source: World Trade Atlas

Table 10. China's Quarterly Cotton Yarn and Threads Exports by Destination

Calendar Year:2006					
Country	Jan-Mar	Apr- Jun	Jul-Sep	Oct-Dec	TOTAL
Hong Kong	87,754	105,557	104,724	93,342	391,377
Korea, South	8,343	8,871	8,860	8,196	34,270
Bangladesh	2,601	2,534	4,410	2,636	12,181
Japan	2,573	4,236	3,740	4,042	14,591
Russia	280	903	3,200	3,041	7,424
Italy	1,710	2,822	2,315	3,466	10,313
Myanmar	1,506	1,437	2,126	2,296	7,365
Indonesia	322	1,374	1,255	868	3,819
Singapore	357	1,587	701	1,328	3,973
Other	7,122	10,430	8,830	7,964	34,345
TOTAL	112,567	139,750	140,161	127,179	519,657
Calendar Year:2007					
Country	Jan-Mar	Apr- Jun	Jul-Sep	Oct-Dec	TOTAL
Hong Kong	80,249	106,223	96,728	78,152	361,352
Korea, South	7,072	8,777	8,643	6,629	31,121
Bangladesh	2,076	4,322	4,545	3,175	14,117
Italy	1,968	3,800	3,791	3,470	13,030
Japan	3,426	3,490	3,557	3,462	13,935
Myanmar	1,265	1,701	1,527	1,670	6,163
Indonesia	1,041	2,307	1,251	1,309	5,908
Russia	3,454	1,583	2,937	4,269	12,243
Other	9,991	13,874	20,827	16,520	61,212
TOTAL	110,543	146,078	143,805	118,655	519,081
Calendar Year:2008					
Country	Jan-Mar	Apr- Jun	Jul-Sep	Oct-Dec	TOTAL
Hong Kong	81,509	99,699	83,227	51,347	315,782
Korea, South	10,348	13,652	8,085	4,627	36,712
Bangladesh	5,437	5,828	5,311	3,840	20,415
United States	397	742	1,023	2,629	4,791
Taiwan	918	3,226	1,824	2,512	8,479
Japan	3,143	2,631	2,765	2,020	10,559
Italy	3,533	4,114	2,427	1,809	11,884
Malaysia	989	2,440	1,466	1,633	6,528
Germany	125	184	271	1,488	2,068
Singapore	1,255	395	415	1,407	3,471
Panama	20	12	180	1,396	1,608
Myanmar	1,619	1,886	2,032	1,205	6,742
Other	11,669	16,378	12,447	12,723	53,216
TOTAL	120,960	151,186	121,473	88,635	482,255

Source: World Trade Atlas

Table 11. China's Monthly Cotton Fabric Imports

Unit: 1,000 Square Meters

Month	2005	2006	2007	2008	2009
Jan	90,434	78,984	101,379	82,988	45,848
Feb	69,559	76,877	67,268	56,821	
Mar	116,262	111,700	107,980	81,949	
Apr	130,929	119,070	118,344	94,619	
May	110,630	104,379	104,325	84,718	
Jun	110,427	110,729	97,849	73,092	
Jul	105,540	107,165	91,328	76,626	
Aug	105,485	102,195	96,122	72,614	
Sep	108,576	117,464	94,349	82,838	
Oct	119,587	114,202	93,816	84,724	
Nov	130,908	127,051	111,609	81,936	
Dec	142,123	128,070	109,458	76,055	
TOTAL	1,340,459	1,297,886	1,193,828	948,983	
Marketing Year	Aug/05-Jul/06	Aug/06-Jul/07	Aug/07-Jul/08	Aug/08-Jul/09	Aug/09-Jul/10
TOTAL	1,315,583	1,277,456			

Source: World Trade Atlas

Table 12. China's Quarterly Cotton Fabric Imports by Country of Origin

Unit: 1,000 Square Meters

Calendar Year: 2006					
Country	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	TOTAL
China	102,895	139,621	143,097	167,846	553,459
Hong Kong	70,072	96,808	81,841	95,070	343,790
Pakistan	26,773	25,293	35,167	31,939	119,172
Japan	34,244	31,812	25,128	31,856	123,040
Taiwan	11,709	17,064	16,223	18,818	63,813
Korea, South	10,144	10,822	12,868	10,685	44,519
Indonesia	3,219	2,933	3,123	3,261	12,536
Other	8,507	9,824	9,377	9,849	37,557
TOTAL	267,561	334,178	326,824	369,323	1,297,886
Calendar Year: 2007					
Country	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	TOTAL
China	116,273	141,493	125,251	149,744	532,761
Hong Kong	69,157	87,482	72,420	81,584	310,643
Japan	30,483	27,380	20,493	26,332	104,689
Pakistan	27,719	25,812	31,704	24,044	109,279
Taiwan	12,647	17,013	12,670	13,897	56,227
Korea, South	9,143	9,268	8,153	7,302	33,866
Italy	1,708	2,823	2,688	2,862	10,080
Indonesia	2,687	1,621	1,955	2,108	8,370
Other	6,810	7,626	6,466	7,010	27,913
TOTAL	276,627	320,519	281,800	314,883	1,193,828
Calendar Year: 2008					
Country	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	TOTAL
China	98,024	119,604	114,453	116,304	448,385
Hong Kong	54,873	67,806	50,684	49,740	223,103
Japan	25,673	21,957	17,694	24,262	89,585
Pakistan	18,294	12,446	20,941	23,361	75,042
Taiwan	10,034	12,168	10,846	11,234	44,284
Korea, South	6,418	6,208	6,900	7,832	27,358
India	1,523	1,990	2,332	2,619	8,465
Italy	1,926	2,697	2,603	1,887	9,113
Other	4,993	7,553	5,626	5,477	23,648
TOTAL	221,759	252,429	232,078	242,716	948,983

Source: World Trade Atlas

Table 13. China's Monthly Cotton Fabric Exports

Unit: 1,000 Square Meters

Month	2005	2006	2007	2008	2009
Jan	367,102	436,041	425,476	507,658	405,793
Feb	284,965	273,382	411,280	370,832	
Mar	437,819	468,117	392,312	489,945	
Apr	417,040	448,958	496,096	533,580	
May	385,868	434,668	439,481	472,541	
Jun	414,540	444,517	424,101	487,795	
July	398,196	428,935	439,774	486,933	
Aug	419,847	485,664	474,342	514,674	
Sep	437,275	485,395	507,569	523,854	
Oct	424,741	471,032	490,385	506,479	
Nov	441,006	513,640	546,508	447,964	
Dec	447,263	522,728	513,499	419,117	
TOTAL	4,875,663	5,413,079	5,560,822	5,761,372	
Marketing Year	Aug/05-Jul/06	Aug/06-Jul/07	Aug/07-Jul/08	Aug/08-Jul/09	Aug/09-Jul/10
TOTAL	5,104,752	5,506,981	5,560,822		

Source: World Trade Atlas

Table 14. China's Quarterly Cotton Fabric Exports by Destination

Unit: 1,000 Square Meters

Calendar Year: 2007					
Country	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	TOTAL
Hong Kong	239,613	262,343	258,446	307,260	1,067,662
Benin	132,436	168,298	206,797	200,112	707,643
Bangladesh	82,984	89,574	102,619	131,566	406,743
Korea, South	74,906	82,307	73,327	69,612	300,152
Japan	55,767	49,225	57,299	60,608	222,899
Thailand	42,623	44,222	62,646	56,577	206,067
Ghana	28,221	37,843	46,822	56,517	169,403
Indonesia	38,519	49,157	53,607	56,050	197,333
Vietnam	33,566	41,883	44,718	62,333	182,500
United States	46,852	44,625	40,465	40,277	172,219
Other	453,581	490,201	474,940	509,477	1,928,199
TOTAL	1,229,069	1,359,678	1,421,684	1,550,391	5,560,822
Calendar Year: 2008					
Country	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	TOTAL
Benin	184,087	254,268	267,536	240,420	946,311
Hong Kong	208,902	224,426	208,920	212,122	854,369
Bangladesh	107,565	102,253	113,045	146,026	468,888
Togo	49,395	61,783	61,815	62,111	235,104
Vietnam	44,422	45,371	45,956	60,211	195,960
Indonesia	49,930	45,118	46,493	52,351	193,892
Japan	52,124	47,768	52,698	47,585	200,175
Korea, South	70,551	82,948	74,994	39,280	267,773
Ghana	50,290	43,927	45,388	36,983	176,587
United States	42,455	43,595	41,317	34,746	162,114
Sri Lanka	31,992	22,966	28,028	31,139	114,125
Thailand	51,173	62,145	67,444	30,456	211,218
Italy	37,553	35,367	22,220	29,566	124,706
Gambia	26,833	31,121	29,324	21,064	108,342
Brazil	8,709	32,321	57,858	16,101	114,989
Other	352,454	358,541	362,424	313,400	1,386,818
TOTAL	1,368,435	1,493,916	1,525,461	1,373,561	5,761,372

Source: World Trade Atlas

Table 15. Cotton Planted Area and Production by Province

Planted Area (1,000 hectares)					
	2005	2006 *	2007	2008	2009
Total	5,060	5,900	6,126	5,950	5,600
Xinjiang	1,162	1,900	2,140	2,000	1,940
Shandong	847	930	900	890	900
Henan	782	801	700	690	640
Hebei	573	623	680	615	550
Anhui	376	375	376	350	315
Jiangsu	368	355	327	300	270
Hubei	390	382	514	420	400
Hunan	133	136	172	160	150
Gansu	64	77	79	79	75
Jiangxi	81	88	82	88	80
* Data before 2006 is based on NSB statistics. Data for 2006-2009 is Post's estimate/forecast based on 2nd Ag Census and analysis.					
Production (1,000 MT)					
	2005	2006 *	2007	2008	2009
Total	5,700	7,600	8,030	7,840	7,400
Xinjiang	1,957	2,700	3,600	3,350	3,270
Shandong	846	1,023	1,001	1,040	NA
Henan	677	927	726	700	NA
Hebei	577	705	726	737	NA
Anhui	311	410	418	410	NA
Jiangsu	323	425	390	340	NA
Hubei	375	490	506	530	NA
Hunan	185	230	267	270	NA
Gansu	110	160	145	145	NA
Jiangxi	90	133	130	130	NA
* Data before 2006 is based on NSB statistics. Data for 2006-2009 is Post's estimate/forecast based on 2nd Ag Census and analysis.					

Table 16. Cotton Tariffs as of January 1, 2009

Description	HS Code	M.F.N. (%)	CT (%)			Gen(%)
			ASEAN	APTA	H.K.	
Cotton, not carded or combed	5201-0000	T6*				T6
Cotton waste, yarn waste	5202-1000	10	T1*			30
Cotton waste, garnetted stock	5202-9100	10	T1			30
Cotton waste, other	5202-9900	10	T1			30
Cotton, carded or combed	5203-0000	T6				T6
Cotton sewing thread, containing	5204-1100	5	T1			40
85% or more by weight of cotton						
Other	5204-1900	5				40
Put up for retail sale	5204-2000	5	T1			50
Cotton yarn (other than sewing	5205-1100	5	T1	3.5-4.5	0	40
thread), containing 85% or more	to					
by weight of cotton, not for retail sale	5205-4800					
Cotton yarn (other than sewing thread) containing less than 85% by weight of cotton, not put for retail sale	5206-1100 to 5206-4500	5		3.5-4.5		40
Cotton yarn (other than sewing	5207-1000	6	T1	5		50
thread), containing 85% or more	5207-9000	6	T1			50
by weight of cotton, for retail sale						
Woven fabrics of cotton,	5208-1100	10	T1	7.0-9.0		70
containing 85% or more by weight of cotton, weighing not more than 200 g/square meter	to					
	5208-5990*					
	*Except:					
"	5208-2300	12	T1			70

Table 16. Cotton Tariffs as of January 1, 2009 (continued)

Woven fabrics of cotton, containing 85% or more by	5209-1100	10		0	0	70
weight of cotton, weighing more	5209-1200	10	T1	7	0	70
than 200 g/square meter	5209-1900	10	T1	0	0	70
	5209-2100	12	T1	0	0	70
"	5209-2200	12	T1	0	0	70
	5209-2900	12	T1	0	0	70
	5209-3100	10	T1	8.5	0	70
	5209-3200	10	T1	8.5	0	70
	5209-3900	10	T1	8.5	0	70
	5209-4100	10	T1		0	70
"	5209-4200	10	T1	8.5	0	70
	5209-4300	10	T1	9.3	0	70
	5209-4900	10	T1		0	70
	5209-5100	10	T1	9.3	0	70
	5209-5200	10	T1		0	70
	5209-5900	10	T1		0	70
Note: T1--The applied tariff rates for China-ASEAN Free Trade Agreement; T6--Tariff quota rate applied and subject to sliding tariff rate shall be applied to specified quantity imported outside the tariff quota.						

Source: PRC Customs Import & Export Tariff, 2009

Table 17. Cotton Tariff Rate Quotas

Description	HS Code	Initial Quota and Tariff Rate	Final Quota and Tariff Rate	Implementation of Final Quota
Cotton		780,750 mt	894,000 mt	2004
	5201 - 0000	1%	1%	
	5203 - 0000	1%	1%	
Other terms and conditions:				
1) STE share = 33% (See Note)				
2) Staging of TRQ for cotton:				
Year TRQ quantity:				
2002 - 818,500 MT				
2003 - 856,250 MT				
2004 - 894,000 MT				
2005 - 894,000 MT (China added 1.4 MMT TRQ for 2005)				
2006 - 894,000 MT (China added 2.7 MMT TRQ in 2006, subject to variable import duty)				
2007 - 894,000 MT (China added 2.6 MMT TRQ for 2007, subject to variable import duty)				
2008 - 894,000 MT (China added 2.6 MMT TRQ for 2008, subject to variable import duty)				
2009 - 894,000 MT(China's WTO commitment does NOT mandate a TRQ for CY05 to CY09, but China maintained an identical quantity of TRQ as CY04. In addition to those volumes, based on market demand, China adds TRQs yearly. The added TRQs are subject to a variable import duty)				